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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

DOCKETED

AUG 07 1998

DOCKETED BY

JIM IRVIN
COMMISSIONER - CHAIRMAN
RENZ D. JENNINGS
COMMISSIONER
CARL J. KUNASEK
CHAIRMAN

IN THE MATTER OF THE APPLICATION OF)
YUCCA WATER ASSOCIATION, INC. FOR A)
PERMANENT RATE INCREASE.)

DOCKET NO. W-01937A-98-0125

DECISION NO. 61068

ORDER

Open Meeting
August 4 & 5, 1998
Phoenix Arizona

BY THE COMMISSION:

Yucca Water Association, Inc. ("Yucca" or "Applicant") is an Arizona nonprofit corporation engaged in the business of providing water utility service to the public in a portion of Mohave County, Arizona. On February 4, 1998, Yucca filed with the Arizona Corporation Commission ("Commission") an application requesting authority to increase its rates and charges. On May 20, 1998, the Commission's Utilities Division Staff ("Staff") filed its Staff Report and an amendment to the Staff Report on July 7, 1998. Staff recommended that an alternative rate schedule be approved without a hearing.

DISCUSSION

Yucca provides public utility water service to approximately 89 customers and a number of water haulers in an area approximately 35 miles southwest of Kingman, Arizona. The Commission authorized Yucca's current rates in Decision No. 55313 (December 3, 1986). The Arizona Department of Environmental Quality ("ADEQ") has indicated that Yucca is in full compliance with ADEQ drinking water rules for operation and maintenance and is providing water that meets the water quality standards of the Safe Drinking Water Act. Yucca is not located in an Active Management Area and is therefore not subject to conservation and monitoring requirements of the Arizona Department of Water Resources. Yucca's property tax payments are current and Yucca made its required Transaction Privilege Tax filings to the Department of Revenue during the test year ended December 31, 1996 ("TY").

Rate Base

In its application, Yucca proposed an original cost rate base ("OCRB") of \$27,311. Staff adjusted rate base in order to recognize and amortize as Contributions in Aid of Construction ("CIAC") plant additions and improvements funded by a Community Development Block Grant in 1991. Other Staff adjustments to rate base included removal from rate base of dedicated mains no longer used and useful due to the closure of the Kimberly Clark paper plant on January 1, 1997, and the capitalization of plant additions recorded as expense. Staff also adjusted Yucca's accumulated depreciation to accord with the CIAC and capitalized expense adjustments, and to reflect authorized depreciation rates. Staff's adjustments result in an OCRB of \$14,845. We concur with Staff's adjusted OCRB.

Operating Income and Expenses

Staff increased metered sales by \$251 to impute revenues for water service Yucca provided at no charge to a church, a cemetery, and the Fire Department, and reclassified \$40 in returned check fees, resulting in adjusted TY revenues of \$44,697. Staff also made a number of adjustments to operating expenses. These included the capitalization of certain recorded repairs and maintenance and outside services expenses, a decrease in depreciation expense to reflect Staff adjustments to plant, a decrease to purchased power expense to account for out of period billings, an annualization of TY water testing expense, and an increase in property tax expense. The rates and charges Applicant proposed would produce a revenue level of \$61,528, which based on expenses of \$35,227 would generate an operating income of \$26,301 for a rate of return of 177 percent on OCRB of \$14,845. Staff's recommended revenue level is \$46,205, which would provide Yucca with an operating income of \$15,057, for a 101.43 percent rate of return on OCRB. This deceptively large rate of return is due to the size of Yucca's rate base, which is small because most of Yucca's plant is contributed. The return is justified because Yucca's system is 34 years old and will need improvements and replacements in the foreseeable future. Our approval of the high rate of return Staff proposes is contingent on Yucca complying with Staff's recommendation that an account be established for funding future system replacements and/or improvements.

Rate Design

Yucca's monthly minimum charges currently include 1,000 gallons. Staff's recommended rate

1 design retains current monthly minimum rates for the 3/4" residential meters while doing away with the
 2 1,000 gallon minimum in order to foster conservation. Staff also proposed to increase the minimum
 3 charge to the 1" and 2" meter customers, which under present rates are being subsidized by the 3/4" meter
 4 customers. We concur with these rate design measures.

5 Currently, in recognition of the fact that Yucca leases its primary water supply from the Santa Fe
 6 Railroad ("Santa Fe") for a token \$1.00 per year, Yucca charges the Santa Fe employee's residence \$0.50
 7 per 1,000 gallons, with no monthly minimum charge. Yucca proposed to switch the Santa Fe residence
 8 to a flat rate of \$15.00 per month regardless of usage. Staff proposed instead that Yucca charge Santa
 9 Fe the same rate as all other 3/4" meters, which would result in a monthly bill increase for Santa Fe of
 10 at least 189 percent. As stated above, we support Staff's proposal to exclude minimum gallonage from
 11 monthly minimum charges, and because a flat rate is antithetical to this concept, we reject Applicant's
 12 proposal. Although we recognize that Staff made its proposal in keeping with the goal of uniform rates,
 13 we also recognize that Santa Fe's different rates are justified by the benefit that all Yucca's customers
 14 derive from the Santa Fe well lease. We therefore retain the current rate design for the Santa Fe
 15 residence.

16 * * * * *

17 Having considered the entire record herein and being fully advised in the premises, the
 18 Commission finds, concludes, and orders that:

19 FINDINGS OF FACT

20 1. Applicant is an Arizona nonprofit corporation engaged in the business of providing water
 21 utility service to the public in a portion of Mohave County, Arizona, pursuant to authority granted by the
 22 Commission in Decision No. 35240 (May 28, 1964).

23 2. Applicant's present rates and charges were approved in Decision No. 55313.

24 3. On February 4, 1998, Yucca filed with the Commission an application for authority to
 25 increase its rates and charges.

26 4. On March 6, 1998, Staff informed Applicant that its application met the sufficiency
 27 requirements of A.A.C. R14-2-103 and that Applicant had been classified as a Class D utility.

28 5. Applicant's primary water supply comes from a well it leases from Santa Fe for a nominal

81.00 per year.

During the FY, Applicant served 85 metered customers. All but five of those customers were served with 3/4" meters.

Average and median usage on the 3/4" meters during the FY was 11,212 and 6,413 gallons per month, respectively.

On February 2, 1998, Applicant notified its customers of its proposed rates and charges by first class U.S. mail, and in response thereto, the Commission has received three telephone complaints against the rate increase.

Staff conducted an investigation of Applicant's proposed rates and charges, and in the Staff Report filed on May 20, 1998, and the amended Staff Report filed on July 7, 1998, recommended that an alternative rate schedule be approved without a hearing. The amended Staff Report changed only adjusted FY revenues for the Company, and did not alter Staff's originally proposed rates.

The rates and charges for Applicant at present, as proposed in the application, and as recommended by the Staff are as follows:

| | Present Rates | Proposed Rates | |
|---|------------------|----------------|---------|
| | | Company | Staff |
| <u>MONTHLY U.S. GEL CHARGE:</u> | | | |
| 5/8" x 3/4" Meter | \$10.00 | \$15.00 | \$10.00 |
| 3/4" Meter | 10.00 | 0.00 | 10.00 |
| 1" Meter | 10.00 | 20.00 | 15.00 |
| 1 1/2" Meter | 10.00 | 0.00 | 20.00 |
| 2" Meter | 10.00 | 25.00 | 25.00 |
| 3" Meter | 10.00 | 0.00 | 75.00 |
| 4" Meter | 10.00 | 0.00 | 150.00 |
| 6" Meter | 10.00 | 30.00 | 400.00 |
| Excess of minimum - Per 1,000 gallons | \$1.00 | \$1.10 | \$1.00 |
| Gallons included in minimum | 1,000 | 1,000 | 0 |
| Bulk Sales coin-op/non-metered (per 1,000 gallons) | \$3.00 | \$5.00 | \$3.00 |
| Santa Fe Railroad residence (per 1,000 gallons) | .50 | 0.00 | 1.00 |
| Santa Fe Railroad residence - flat rate | 0.00 | 15.00 | 0.00 |

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable pursuant to A.A.C. R14-2-405)

| | | | |
|--------------------------|---------|-----------|-----------|
| 5 8" x 3 4" Meter | \$ 0.00 | \$ 285.00 | \$ 330.00 |
| 3/4" Meter - Residential | 100.00 | 0.00 | 375.00 |
| 1" Meter | 0.00 | 385.00 | 440.00 |
| 1 1/2" Meter | 0.00 | 0.00 | 660.00 |
| 2" Meter | 0.00 | 485.00 | 1,155.00 |
| 3" Meter | 0.00 | 0.00 | 1,625.00 |
| 4" Meter | 0.00 | 0.00 | 2,540.00 |
| 6" Meter | 0.00 | 1,000.00 | 4,875.00 |
| 3/4" Meter - Commercial | 150.00 | 0.00 | 0.00 |

SERVICE CHARGES:

| | | | |
|----------------------------------|---------|---------|---------|
| Establishment | \$0.00 | \$0.00 | \$25.00 |
| Establishment (After Hours) | \$0.00 | \$0.00 | \$35.00 |
| Reconnection (Delinquent) | \$10.00 | \$30.00 | \$35.00 |
| Meter Test (If Correct) | \$0.00 | \$50.00 | \$40.00 |
| Deposit | * | * | * |
| Deposit Interest | * | * | * |
| Reestablishment | * | * | * |
| (Within 12 Months) | ** | ** | ** |
| NSF Check | \$10.00 | \$20.00 | \$15.00 |
| Deferred Payment (Per Annum) | 0.00% | 2.0% | 12.00% |
| Meter Reread (If Correct) | \$0.00 | \$10.00 | \$15.00 |
| Late Payment Penalty (Per Annum) | 0.00% | 12.00% | 18.00% |

Monthly Service Charge for Fire Sprinkler:

| | | | |
|-----------------|--------|--------|-----|
| 4" or Smaller | \$0.00 | \$0.00 | *** |
| 6" | \$0.00 | \$0.00 | *** |
| 8" | \$0.00 | \$0.00 | *** |
| 10" | \$0.00 | \$0.00 | *** |
| Larger than 10" | \$0.00 | \$0.00 | *** |

* Per Commission Rule A.A.C. R14-2-403(B).

** Months off system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).

*** 1% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

11. Pursuant to the Staff Report, Applicant's OCRB is determined to be \$14,845 which is the same as its fair value rate base ("FVRB").

12. Applicant had adjusted operating revenues of \$44,697 and adjusted FY operating expenses of \$31,148 resulting in adjusted operating income of \$13,549 providing a rate of return of 91.27 percent on FVRB of \$14,845.

13. The rates and charges Applicant proposed would produce a revenue level of \$61,528

1 which based on adjusted operating expenses of \$31,148 would generate an operating income of
2 \$30,380 for a rate of return of 202.53 percent on FVRB.

3 14. The rates and charges Staff recommended would produce a revenue level of \$46,205
4 which would provide Yucca with an operating income of \$15,057 for a 101.43 percent rate of return
5 on FVRB.

6 15. Applicant's proposed rate schedule would increase the typical residential bill, at the
7 median, from \$15.41 to \$20.95 for an increase of 36.0 percent.

8 16. Staff's recommended rates would increase the typical residential bill, at the median,
9 from \$15.41 to \$16.41 for an increase of 6.5 percent.

10 17. The rates and charges and resulting rate of return proposed by Staff are reasonable
11 under the circumstances of this case.

12 18. Staff has additionally recommended that:

13 (a) In addition to the collection of Applicant's regular rates and charges, Yucca
14 collect from its customers their proportionate share of any Privilege, Sales or
Use Tax as provided for in A.A.C. R14-2-409(D); and

15 (b) Applicant establish a separate interest-bearing account for the purpose of
16 funding future plant replacements and/or improvements, into which Yucca
17 will deposit \$6,000 annually (\$500 monthly) and provide semiannual
18 reconciliations for the Commission in the form of a bank statement reflecting
deposits and disbursements to the account, accompanied by invoices to
substantiate disbursements.

19 19. Applicant is in full compliance with the ADEQ drinking water rules for operation and
20 maintenance and is providing water that meets the Safe Drinking Water Act quality standards.

21 CONCLUSIONS OF LAW

22 1. Applicant is a public service corporation within the meaning of Article XV of the
23 Arizona Constitution and A.R.S. Sections 40-250 and 40-251.

24 2. The Commission has jurisdiction over Applicant and of the subject matter of the
25 application.

26 3. Notice of the application was provided in the manner prescribed by law.

27 4. The rates and charges and the resulting rate of return authorized hereinbelow are just
28 and reasonable under the circumstances herein and should be approved without a hearing.

5. Although Staff's recommended rate design for the Santa Fe residence is reasonable, it is more appropriate that Yucca maintain its current rates for the Santa Fe residence in consideration of the circumstance of the Santa Fe well lease.

6. Staff's recommendations, as set forth in Findings of Fact No. 18, are reasonable and should be adopted.

ORDER

IT IS THEREFORE ORDERED that Yucca Water Association, Inc. is hereby directed to file on or before August 31, 1998 revised rate schedules setting forth the following rates and charges:

MONTHLY USAGE CHARGE:

| | |
|---|----------|
| 5' 8" x 3' 4" Meter | \$ 10.00 |
| 3' 4" Meter | 10.00 |
| 1" Meter | 15.00 |
| 1 1/2" Meter | 20.00 |
| 2" Meter | 25.00 |
| 3" Meter | 75.00 |
| 4" Meter | 150.00 |
| 6" Meter | 400.00 |
| Charge per 1,000 Gallons | \$1.00 |
| Gallons included in minimum | 0 |
| Bulk Sales coin op/non-metered (per 1,000 gallons) | \$3.00 |
| Santa Fe Railroad residence (per 1,000 gallons; no monthly minimum charge) | \$0.50 |

SERVICE LINE AND METER INSTALLATION CHARGES: (Refundable pursuant to A.A.C. R14-2-405)

| | |
|---------------------|-----------|
| 5' 8" x 3' 4" Meter | \$ 330.00 |
| 3' 4" Meter | 375.00 |
| 1" Meter | 440.00 |
| 1 1/2" Meter | 660.00 |
| 2" Meter | 1,155.00 |
| 3" Meter | 1,625.00 |
| 4" Meter | 2,540.00 |
| 6" Meter | 4,875.00 |

SERVICE CHARGES:

| | |
|------------------------------------|---------|
| Establishment | \$25.00 |
| Establishment (After Hours) | \$35.00 |
| Reconnection (Delinquent) | \$35.00 |
| Meter Test (If Correct) | \$40.00 |
| Deposit | * |
| Deposit Interest (Per Annum) | * |
| Reestablishment (Within 12 Months) | ** |
| NSF Check | \$15.00 |
| Deferred Payment (Per Annum) | 12.00% |
| Meter Reread (If Correct) | \$15.00 |
| Late Fee (Per Annum) | 18.00% |

MONTHLY SERVICE CHARGE FOR FIRE SPRINKLER

| | |
|-----------------|-----|
| 4" or smaller | *** |
| 6" | *** |
| 8" | *** |
| 10" | *** |
| Larger than 10" | *** |

* Per Commission Rule A.A.C. R14-2-403(B).

** Number of months off system times the monthly minimum per A.A.C. R14-2-403(D).

*** 1% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

IT IS FURTHER ORDERED that Yucca Water Association, Inc. shall provide notice to its customers of the above rates and charges in its next regularly scheduled billing, and the above rates and charges shall be effective for all service provided on and after September 1, 1998.

IT IS FURTHER ORDERED that Yucca Water Association, Inc. shall collect from its customers, in addition to the collection of Applicant's regular rates and charges, their proportionate share of any Privilege, Sales or Use Tax as provided for in A.A.C. R14-2-409(D).

IT IS FURTHER ORDERED that Yucca Water Association, Inc. shall establish a separate interest-bearing account for the purpose of funding future plant replacements and/or improvements, into which Yucca shall, beginning by October 31, 1998, deposit \$500 monthly, and shall file semiannual reconciliations of that account with the Director of the Commission's Utilities Division, in the form of a bank statement or statements reflecting deposits and disbursements, accompanied by invoices to substantiate disbursements, beginning by May 15, 1999.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

[Signature]
COMMISSIONER - CHAIRMAN

[Signature]
COMMISSIONER

[Signature]
COMMISSIONER

IN WITNESS WHEREOF, I, JACK ROSE, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 7th day of August, 1998.

[Signature]
JACK ROSE
EXECUTIVE SECRETARY

DISSENT
JW bbs

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SERVICE LIST FOR:

YUCCA WATER ASSOCIATION, INC.

DOCKET NO.:

W-01937A-98-0125

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